

China's path: a view from the top

The Chinese Vice Minister of Finance, Li Yong, talks about a strategy to harness the discipline of accounting standards to help the nation achieve its development agenda.

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THE PROGRESS AND REFORMS achieved by China in its modern era of openness have created unprecedented economic productivity and prosperity. The resultant growth has given the country an international prestige that not only does its population proud, but also gives it a strong and important voice in the governance of the international economy.

Being prepared to adapt policies to a changing environment is one of China's strengths, says the nation's Vice Minister of Finance, Li Yong. He also stresses the importance of considering all sectors of society – from farmers to professionals in multinational corporations.

While not a leader in the field of international accounting, China sees the advantages of the International Financial Reporting Standards (IFRS) – both for its own development and that of less-developed countries. However, he stresses that change can take time as experience and learning grow.

Impatience, Li says, can put your plans into reverse. “You can put any word in front of standards,” Li recently told a lunch meeting of CPA Australia and the Chinese Institute of Certified Public Accountants (CICPA) members. “High-quality ... encompassing ... but the most important are single set.”

It was against this background that CPA Australia CEO Alex Malley recently discussed several topics with Li, who is also President of CICPA and was made a member of the International Integrated Reporting Committee (IIRC) earlier this year.

Malley: Vice Minister, welcome back to Australia. You've had several visits here over the years.

Li: Yes, thank you very much, Alex. I'm very happy to come back to Australia. Beautiful country, nice people.

Malley: In terms of the Chinese economy, the world is marvelling at its growth and at the same time many of the Western economies are facing significant issues. What are the challenges of being such a successful economy in the context of difficulties around other markets?

Li: China has now had more than 30 years with a high growth rate after starting from a very low level of income. The first challenge is strong leadership. The Government of China has built a strong team with leaders elected or selected from officials and from members of the general public with rich experience. They are not only politicians, they know economics, they know what people need at the lower end. They have come from local counties and provinces, and without such a background they could not be selected as leaders.

Second, policy. I think one of the most important fundamental or basic policies was opening up. China started opening up in 1978, which has >



Alex Malley and Li Yong discuss the problems of restructuring an economy while also maintaining high growth.

CICPA		
CPA AUSTRALIA'S CHINESE PARTNER		
<p>The Chinese Institute of Certified Public Accountants (CICPA) was founded in 1988. It works alongside more than 50 other professional accounting bodies outside China, including CPA Australia. It is responsible for formulating professional standards and rules for its members in China. Li Yong was elected its</p>	<p>president in November last year. CICPA is a member of the Confederation of Asian and Pacific Accountants (CAPA) and the International Federation of Accountants (IFAC), and is on the boards of both bodies. CICPA began adopting IFRS in 2007 and commits to:</p> <ul style="list-style-type: none">■ provide for the service quality and professional ethics of members	<ul style="list-style-type: none">■ regulating the CPA profession according to relevant laws■ coordinating the relationship within and beyond the CPA profession <p>The organisation has more than 5600 group members (that is, accounting firms), more than 140,000 practising members and more than 70,000 non-practising members. Total revenue in 2005 was RMB18 billion.</p>
<p>led to rising incomes for our population. The government also established macro-economic policy settings that suited the situation as well as positioning China for the future. For instance, during the Asian financial crisis in 1997, China's government took decisive and quick action to map out a policy to boost domestic investment. The results show how appropriate that action was. The financial crisis that started in the second half of 2008 created enormous pressure, and again the government took decisive action by its yuan stimulus program.</p> <p>Malley: Very serious stimulus.</p> <p>Li: Very serious stimulus, which was implemented within three years. The results show that the stimulus was good, very well programmed. And now macro-economic policy, fiscal policy, and monetary policies, are adaptable to circumstances. We are implementing proactive fiscal policy and moderately relaxed monetary policy at present. And also we have a five-year program, running from 2011-15. This covers a very important change of development approach.</p> <p>We are restructuring our economy from an export-oriented, or in other words Western economic model, to a domestic consumption-boosting model balanced against export investment consumption. At present the most demanding task for the Chinese Government is to handle or control inflation. Without growth we cannot achieve a rise in income, and an increase in consumption. Inflation control and restructuring the economy while also maintaining relatively high growth are three things we need to combine.</p> <p>Also, hard-working people. The farmers of China contribute a lot to growth and to social stability. About 1.3 billion people in our country need food, so without food there's no stability. We've now had seven or eight consecutive years of high grain harvests.</p> <p>Malley: It's been interesting for me to observe that you talk about 1978. That year my friend went on one of the first tours of China, when it just opened up. He came home fascinated. The same man went back in 2009 and couldn't believe it was the same country. It's such a successful balance of growth over time. So with that and with your ability as a country to look holistically at your economy, at the centre of course is the accounting profession. What contribution is China making to the global leadership of the profession?</p>		

Li: Talking about the accountancy profession, I would like to say China is not leading the profession globally. China joins in cooperation with the international accountancy profession. All of the accounting profession has had a limited time for development because the Chinese Institute of Certified Public Accountants was established only 20 years ago. Our accounting profession actually developed on a planning system learned from other countries. Now we have the sense that we have opened our door and introduced Western accounting and we are learning how to actually provide an appropriate accounting profession in order to allow the corporate sector to move ahead. So this is a learning process. We're not starting quite from scratch, but almost. I'm very happy with this rate of fast development. We're learning from international bodies, including CPA Australia.

Malley: I'm very happy to hear that.

Li: Yes, with this kind of attitude we can move ahead. We start from learning the meaning of the standards. Now we're becoming more active in setting up, drafting and amending the standards. So this process has taken less time compared with some other countries. We are happy because we are open, we have the right attitude, because we have strong support from other international and national accounting bodies.

Malley: And of course China is like Australia, involved with all the key forums in bringing the profession into a more collaborative state, including IFAC. The issue for China, of course, is they have embraced IFRS and see that as a very productive way forward.

Li: Yes, as the economy grows we will introduce new things to accommodate different economic systems, different market disciplines and also different detailed situations in certain member countries, so in this process we can work out lots of new standards, new articles to accommodate the new development of accounting services. I really hope more countries will participate in this process, particularly emerging market economies, because their economies are going very fast and they badly need those kinds of new financial services, new standards.

Malley: With all the foreign investment and investment flows between countries, the standards that people can rely on for their global relevance become important. How well are the private sector and SMEs, and government-owned enterprises, embracing the taking up of these standards?

Li: In China, for example, SMEs develop very fast because China's economy runs on two tracks: one is state-owned, the other is the non-state-owned or private sector. And then we need to provide a kind of service for small-to-medium enterprises. Based on this kind of situation and the government support, this is very important. The business sector needs it and the accounting profession likes it so it's a good combination. I'm very happy that now the Chinese Government has set up a program and policy strongly promoting the kind of service tertiary sector which will mainly be run by non-government companies, small-to-medium entities. We are working very hard on that.

Malley: You would know better than most, with such an enormous population – and you mentioned before your food and its importance – of the subject of sustainability. It's very clear to everyone in the world. China is actually involved and you are particularly involved now in the IIRC, so you have a sense too that China's becoming involved in the debate about sustainability and, in due course, the introduction of integrated reporting models.

Li: This is a different set of issues. For sustainability, it is a very important time for every country. For China, even without IIRC we will actually implement a policy to have sustainable growth, to have an economy with balanced growth. And as I mentioned, our five-year program already sets a very, very clear policy to the national community and to domestic people that we will have a strong change of our own developmental approach.



“The most demanding task for the Chinese Government is to handle or control inflation.”

We would like to have a green economy, green growth, we will have energy conservation, less emissions, less pollution, all while maintaining relatively fast growth. Regarding IFRS, this is a new thing for the accounting profession. It is not an easy job and the first thing is that we should have wide discussions on how to have effective, useful, applicable integrated financial reporting of emissions, the contribution of the social sector and other indicators being incorporated in the financial reporting.

Secondly, this is an important issue. If we would like to have this on the table it should be very well accepted by the general public, the corporate sector and by member countries.

Finally, it should be applicable – if we develop something very hard to use, what's the use of that? So I'm very interested in IFRS so that's why I joined a committee. I feel very, very happy and work with colleagues to develop a kind of reporting model which will have countries, have corporate sectors, have people to understand the importance of all those issues. I understand it is a difficult job, it's a big challenge. My personality is that I try to beat that challenge.

Malley: In terms of final issues now, the integrated reporting we're actually producing in our organisation internally – and, as you know, it covers financial and non-financial information – is creating some very

interesting conversations which I guess we could in the modern era call whole-of-business conversations. When we look at China and the way in which the government is taking the economy forward, it very much has a whole-of-business mindset. The challenge is bringing all of the people of China up into the next level. Dealing with that in a sustainable way is an enormous challenge.

Li: Certainly it is a big challenge, I fully agree. First, that people have enough to eat, second enough to wear and third a place to live. Those are basic standards of living for people. Even those three things are an enormous challenge for governments and for people in China. Now we are looking forward not only to these three things but more things and sustainable growth and more clear air, green grass and clean water.

Those are important for sustainability of the basic living standards of the people. So we will work out a kind of policy set up by government and we will follow that and work on that together with the international community. With integrated financial reporting or without integrated financial reporting, we will move towards that direction.

Malley: Mr Li, thank you for your time

Li: Thank you so much, I really enjoyed the discussion and the meeting of the profession. ■